

Governance, Regulation and Compliance

Managing travel and entertainment expenses to meet an organisation's GRC needs

December 2010

Organisations are beset with the need to meet GRC criteria defined by internal and external policies. Failing to meet such criteria can result in business and legal impacts ranging from time wasted sorting out minor issues to major issues that can lead to financial penalties, brand damage and employee dissatisfaction. Although travel and entertainment (T&E) expense management is often seen as being of low importance in terms of overall governance, regulation and compliance, poorly managed T&E can lead to unforeseen issues that can have long term business impact.

Clive Longbottom
Quocirca Ltd
Tel : +44 118 948 3360 ext 200
Email: Clive.Longbottom@Quocirca.com

Rob Bamforth
Quocirca Ltd
Tel: +44 1962 620751
Email: Rob.Bamforth@Quocirca.com

Concur[®]

An independent report by Quocirca Ltd.

www.quocirca.com

Commissioned by
Concur Technologies, Inc.

quocirca

Governance, Regulation and Compliance

Managing travel and entertainment expenses to meet an organisation's GRC needs

Many organisations have internal policies for managing travel and entertainment (T&E) expenses. In the majority of cases, these policies are set to match the prevailing laws of the country the organisation is situated in. However, global organisations need to ensure that such compliance is managed across international boundaries, while ensuring policies are easy to understand and follow for employees. T&E management must minimise the risk of errors and consequent non-compliance.

- **Internal policies create the culture by which T&E are dealt with by an organisation**
The internal rules around T&E management may well be different to the legally binding rules implemented by external governmental bodies. A single management approach is required to deal with both internal and external compliance.
- **Local states, central governments and trading blocs set the legal aspects for GRC**
These aspects may well be different in different geographies, yet a single multi-national organisation, or even one located in a single geography with employees undergoing a degree of global travel, will need to ensure that it can report against multiple compliance requirements.
- **A mix of legal compliance and local agreement establishes the policies for B2B T&E policies**
Increasingly, there is a need for partners in business-to-business (B2B) value chains to reach agreements between themselves as to what expenses will be treated as being part of a supply contract, and what will be seen as being expenses extraneous to any agreement. Again, this will result in a mix of internal and external compliance needs that can only be met through systems that can provide the correct levels of granularity in the way that it reports.
- **The key to managing T&E to match GRC needs is in granular reporting**
A business will need to monitor, measure and optimise expenses on an on-going basis, as well as being able to report to central government, partners and stakeholders regularly. Each report may need to be different, yet will have to be run against identical data, preferably held in a single central database, to minimise transcription and missing data errors.
- **Only through full T&E management can an organisation's risk be minimised**
The risk of unmanaged T&E goes much further than the need for repayment of over-claimed tax and overpaid expenses. In market verticals where a high degree of external scrutiny is applied (such as finance, pharmaceutical and government), the lack of demonstrable expense management can lead to problems in the flexibility of the organisation, and high-profile expense scandals can have unforeseen impacts on the perception of the business by its customers, partners and other stakeholders.
- **GRC can impact individuals as well as organisations**
Where fraud can be proven, a lack of effective GRC can lead to criminal charges being brought against individuals within an organisation. Where these individuals have a high profile or critically important position within the organisation, the impact of such investigations and charges can have a direct impact on the business' capabilities.
- **The complexity of global T&E management points to the need for external domain expertise**
Global travel brings in the need to understand the differences in T&E rules in different geographies. The costs of maintaining such knowledge internally is prohibitive: external organisations offer services that provide the required knowledge of global T&E rules.

Conclusions

Governance and regulatory compliance are core parts of an organisation's responsibilities. Managing T&E expenses in a manner that provides full transparency and the capability to report against both internal and external needs is necessary – not only to demonstrate good governance, but also to ensure full legal compliance. Uncontrolled T&E procedures can lead not only to a need for time being spent in remediation, but also can impact business processes, customer and other stakeholder perceptions of the company, as well as resulting in fines and, in the worst cases, legal proceedings.

1. Introduction

Governance, regulation and compliance (GRC) has become an area of great interest to organisations as an increasingly complex mix of internal and external rules and policies come to prevail. Any organisation must face up to the need for three forms of compliance. Firstly, there is the need to create, implement, monitor and report on internal policies. Secondly, there is the need to choose, implement, monitor and report against external areas, such as the various non-mandatory, but commercially attractive, ISO standards, accreditation requirements and supplier/customer process rules. Third, there is the need to adhere to, and report against, the various legal constraints applied to an organisation, by central government or by government approved bodies.

In many cases, these three areas will be interlinked – for example, the majority of organisations will attempt to create and implement internal policies for travel and entertainment (T&E) expense management that closely match the legal requirements. However, this is not always easy; for example where there is a need to be able to demonstrate compliance against multiple different regulatory regimes.

Failure to monitor and measure the various internal, external and legal areas can lead to various problems. These range from time spent by employees within an organisation having to correct errors, through the need to reclaim/repay mis-claimed expenses or under-paid tax from/by employees, to tax issues between trading partners, to issues with revenue and tax bodies leading to fines and media coverage that may impact an organisation's reputation and brand. Large, multi-national companies often struggle to understand the various tax laws that there are across their own organisational structure. When a complex blend of suppliers and customers is added to the mix, T&E management has become a core part of the GRC requirement.

The need to manage T&E expenses across a range of environments requires a high degree of domain expertise and knowledge of global tax and expense laws.

This paper will be of interest to readers responsible for T&E expense management in an organisation as well as those responsible for the GRC activities in the financial processes of an organisation.

2. The difference between governance, regulation and compliance

In common usage, the three terms of governance, risk and compliance are often used interchangeably. However, it is worth looking at the differences in the three terms and how they interplay with each other.

Corporate governance can be taken as a set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. In this manner, it is essentially internal and has no direct bearing on the legal status of the corporation. However, corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed – and failure to adhere to agreed governance policies and procedures can have a deep impact on reputation and brand, with a concomitant impact on commercial performance. The principal stakeholders are the shareholders, the board of directors, employees, customers, creditors, suppliers, and the community at large, any of which can cause lasting harm to an organisation if they believe that the business is not being governed well by its management.

Furthermore, failure to maintain good governance can result in lost time through the need to replicate work due to inefficient processes and failure in basic information flows between a business and its partners and customers. Standard governance procedures within an organisation can be seen in areas such as the details of contracts of employment between the employer and employee and how grievances are dealt with, how expenses are agreed and managed and how information is shared amongst the principal stakeholders.

Regulation can take many forms. These can be seen in legal restrictions created and policed by a government authority; regulations found across a range of businesses, such as co-regulation and market regulation (such as regulation of the financial markets by the UK's Financial Services Authority (FSA), or of the US pharmaceutical markets by the Federal Drug Administration (FDA)); self-regulation by an industry such as through a trade association (e.g. the UK's Soil Association or the US's USDA Organic regulations for organic food certification, or ISO 9001 for quality control); and social regulation through the recognition and adoption of social norms across different geographies and different cultures.

However, many such regulations are driven through a central body (such as the government, a regulatory group such as the SEC or the ISO body), which mandates a set of processes. When this is the case, the governance becomes an act of “compliance”. Failure to meet the needs of a legal compliance requirement can result in time lost reporting to those central bodies in declaring the degree of non-compliance, the need for repayments of any underpaid amounts and fines, the imposition of new mandatory policies from outside and an adverse impact on an organisation’s brand caused by bad media coverage. Such compliance requirements are exemplified by how financial institutions are regulated by the FSA in the UK, or the “Fed” (Federal Reserve System) in the US, how central governments dictate how taxes and expenses are managed, and, increasingly, how greenhouse emissions are measured and controlled.

In essence, the act of regulation against external mandated policies can be considered as actions or conduct where a sanction such as a fine may be imposed where compliance is not demonstrated against a set of rules and obligations defined by a regulatory body. This action of administrative law, or the implementation of regulatory law, may be contrasted with statutory or case law, where legislative law creates a body of laws that has to be complied with to avoid criminal charges. Here, an act of fraud (such as knowingly defrauding an organisation through its expense processes) can result in criminal charges that result in consequences beyond the act of a fine.

To a certain extent, organisations can pick and choose what they see as being important for governance needs, but must be able to demonstrate compliance where the law requires it, and to be able to respond in an adequate manner if a legal request is made for information to demonstrate compliance or non-compliance. With governance, there is a degree of risk analysis and management that can be undertaken in order to see what risk is acceptable to the organisation – yet, in compliance, the degree of risk that can be carried is minimal. For example, gaining ISO 9001 accreditation and then not being able to demonstrate that the right processes are in place and being followed at a later date will result in the ISO 9001 accreditation being removed. This may have a knock-on effect with some customers who may insist on ISO 9001, but this impact can be covered through a proper risk analysis up front along with adequate plans for how to deal with such a situation.

However, the lack of capability to demonstrate that the correct policies and procedures were in place to manage T&E, resulting in underpaying of taxes to the government and overpaying of benefits to employees can, and often does, lead to legal proceedings; and if the situation warrants it, this can extend as far as individuals within the business – both at the claimant level and at the management level, if it is deemed that this amounted to tax avoidance rather than errors in the system. Government bodies are becoming far less forgiving, believing that today’s technology makes it easier for organisations to create better capabilities for compliance.

The need to ensure that an organisation’s governance and regulatory needs are complied with effectively can no longer be left to chance. The application of suitable technology can automate many of the problems encountered and the use of external domain expertise can ensure that the complexities of compliance with a multifaceted mix of internal and external needs can be managed without the need for employees to be overwhelmed with a need to keep up to date with changes in the underlying rules and legal requirements.

3. T&E and GRC

T&E management is a core cost to a business, and the complexities of understanding where taxes can be reclaimed, what rules there are around subsistence claims, cross-border issues and so on can make it easy for genuine mistakes to be made. The use of spreadsheets to manage T&E is widespread in many organisations, which leads to issues with aggregating data, in reporting against it and ensuring that the correct amount of money is paid, both to the claimant and in taxes to government. Further, many governments allow an employer latitude in the rates of expenses that can be paid to employees in areas such as travel and subsistence, but have legal limits on what the organisation can claim as legal expenses itself, and what this means to the tax situation of the claimant.

For example, in the UK, an employee, when using their own vehicle, can claim 40p per mile in the carrying out of their work and the employer can claim back an agreed amount of tax against this from central government. However, it is also possible for the employer to agree to rates higher than this with the employee, but any additional rates become a taxable benefit to the employee, and only the tax amount agreed against the 40p per mile can be claimed from central government. Similarly, subsistence expenses can be refunded based on provable expense (i.e. the provision of validated receipts) or can be claimed against an agreed allowance, with different ways of dealing with each. This brings to the fore the difference between governance (measuring and reporting against internally agreed policies around T&E) and regulatory compliance (reporting and paying against legally mandated T&E laws). Attempting to

manage such a system through manual means or through in-house, home-grown systems will rapidly lead to issues and errors which may have legal ramifications.

It should be apparent that multiple systems – for example, one aimed at internal and one aimed at external – will not meet the needs of the various stakeholders in the T&E environment either. Organisations should be looking for a system that helps manage their overall GRC needs when it comes to T&E – and can also provide outputs that can be used elsewhere, for example in the collation of overall financial reports from financial management systems as well as providing the reports that are required by the multiple levels of hierarchy across an organisation and those stakeholders with an interest in how expenses are being managed.

4. The cost of non-compliance

There is a common belief that expense fraud is only a low-level issue, that, even if found out, all that is involved is the paying back of any over-claimed amounts and a promise to try and ensure that such fraud does not happen again. Even as there has been a growth in governments fining businesses and individuals that cannot demonstrate adequate T&E management processes and where widespread fraud and errors have been identified, many organisations have still failed to appreciate the problems that they may be building up.

However, issues in the governance of T&E can extend well beyond straightforward payment adjustments and/or fines.

The US SEC announced research carried out by The Deloitte Forensic Center in 2010 that showed that, in 81% of all cases involving SEC enforcement releases against accounting and expense issues, senior executives were involved. In 44% of cases, this was the CFO, while the CEO was named in 24% of cases. Once such a case is made public, the organisation is generally implicated in the ensuing bad publicity – the actions of the individual become the public face of the organisation.

Several high profile cases have come to light over the past few years that demonstrate how T&E management is needed in order to ensure that both internal and external governance is correctly managed. The UK's National Grid is currently under investigation (at the time of publication) in the US due to what the regulator sees as excessive rises in its rates to American consumers. To agree to National Grid raising its rates beyond a certain limit, the regulators in New York and Massachusetts have carried out an audit of its overheads, including its expenses. As of September 2010, the Public Service Commission of New York has so far identified \$26m of "questionable" expenses, while the head of the audit group (the Attorney General of Massachusetts) has identified \$300,000 of "red flag" expenses, or ones that have already been deemed to be unacceptable. National Grid has withdrawn \$4m of expenses from its rate claim to New York already, resulting in the need to recalculate all of the rates. As well as the need for these expenses to be repaid by the individual claimants, it is likely that National Grid will find itself unable to charge the rates it wants to, may well face corporate fines and will have seen its standing with the US public harmed for a considerable period of time.

Also, the debacle over Member of Parliament (MP) expense claims in the UK has led to a complete breakdown in trust between the voters and politicians, and this shows little sign of being rebuilt in the near future. An agreed system of governance was in place – but was self-policed and did not require records to be extensive or for procedures to be followed in any agreed manner. The resulting resignations, court cases and the standing down of a high percentage of MPs at the last general election has left voter trust at an all-time low.

Another example is the announced review of the UK's Commonwealth Development Corporation (CDC), where expenses have been out of line with what should be expected for an organisation aimed at helping other economies with their own development. Older cases include companies such as WorldCom and Enron, where large-scale and far reaching expenses and accounting fraud brought the companies down, as well as jail sentences for various senior managers in the companies. In 2010, irregular expense claims led to the resignation of HP's CEO.

Increasingly, governments are making it easier for financial transgressions to be identified. For example, in the UK, the Public Interest Disclosure Act (PIDA) encourages employees to provide information where fraudulent expense claims by other individuals is suspected. Investigations can then be instigated under the PIDA legislation and, where necessary, criminal charges can be brought against the individuals concerned. This does not just apply to UK-based organisations, but can be used where foreign organisations have a presence in the UK and where a UK-based employee has suspicions – even against an individual based outside of the UK.

The above examples demonstrate different impacts from poorly managed expenses. Although these are high-profile examples, even low-level fraud through adding a few miles to travel claims, changing details of a receipt or using filled-in blank receipts for non-existent taxi rides can result in a domino effect that can grow out of all proportion to any one expense issue. Putting in place a means of effectively, yet transparently, managing the whole T&E process can ensure that such issues do not arise in the future.

5. Management through transparency

The need for compliance has to be met through a transparent approach as to what is being monitored. Employees have to be able to easily understand what the underlying rules are around what can be claimed as a reasonable business expense and what cannot. Some of this will be down to basic education of the workforce, but a great deal of it can now be codified and automated through the use of suitable technology combined with the correct domain expertise.

This transparency has to be in place from the bottom to the top of an organisation. In the examples cited above, the misuse of expenses was from the very top of organisations and from people who were in the public eye. If expense management is not seen to be applied across the whole organisation in an equal and equitable manner, then those further down the hierarchy within an organisation will be tempted to see “what they can get away with”, believing that what is fit for the bosses is fit for the workers.

Therefore, the use of a single expense claim engine, available no matter where an employee is working, means that a set of rules can be created that apply across the organisation and can be easily enforced. However, a completely fixed system may not be the correct answer, and flexibility does have to be built in. For example, a senior employee may be travelling and finds that meals available at the hotel they are staying at exceed the rate agreed. The expense can be routed via workflows to someone within the organisation who can allow (or disallow) the expense based on a case by case basis. At every stage, the expense is monitored, audited and fraud is minimised. Any claim for expenses that is not supported by full evidence of the expense – invoices, credit card transaction data and so on – can be submitted to in-depth scrutiny.

6. Use of on-line T&E management systems

In creating a fully managed, transparent, yet effective, T&E management system, an organisation needs to consider where its skills and focus lie. For example, managing expenses across multiple geographic boundaries requires knowledge of both local and global legislation – which change on a regular basis. Changes in local tax laws may mean that tax reclamation may be different at different times. Some changes may take place at a certain time and date, others may be backdated. Trying to keep up to speed with such changes is a distraction that comes at a cost to an organisation. Outsourcing such domain expertise to an external provider means that the legal aspects of compliance with such laws become far easier.

Similarly, ensuring that a system is available to all employees, even while travelling, means having a high-availability platform - and in having help available to those who may be unsure of a specific expense-related issue. Also, having a system that ties in with an existing travel booking system enables changes to be made to travel arrangements that are immediately reflected in an employee's T&E records. Direct integration of travel systems into a T&E management system also ensures that travel bookings fall within the agreed rules – so negating arguments after a booking has been made that lies outside of agreed limits. Tying in an employee's T&E claims with their credit card records means that authorised expense claims can be settled directly with the credit card company, avoiding late payment charges and any errors in payment to the employee through transcription errors.

The above is difficult to do with an on-premise bespoke system. Quocirca strongly recommends that organisations look to outsourcing T&E management to an external provider – one who can demonstrate in-depth domain expertise, a capability to move with changes not only in the legal aspects of T&E management, but also in what is happening in the markets, such as the capability to provide clients with smartphones, to integrate with emerging taxi and other transport payment systems and so on.

By bringing all T&E data under a single system, reporting becomes far more effective. The needs of the different stakeholders in the business – from the employee, through the business to government bodies and shareholders – can be met through a granular approach to how expenses are reported. Internally, this may be by individual and

department, to shareholders; it may be by type of expense, and to government through formats that adhere to their specific needs.

7. Conclusions

The impact of poor T&E management on a business goes far further than the obvious. Fraudulent T&E claims can have a direct impact on how a business is perceived by the markets – but can also have a financial and legal impact from a GRC point of view. As seen from the examples used, non-compliance with expense rules can lead to fines, issues around dealing with customers and loss of trust in the very people that are entrusted with being the public face of organisations and public bodies.

Attempting to create a system for T&E management internally could lead to issues that are difficult to uncover and to deal with if the reporting to governments is seen to be wrong. Even commercial off the shelf software (COSS) that is run on-premise can be too slow in being updated to reflect changes in the rules and regulations around the legal aspects of T&E management.

Using an external provider of T&E management provides the best approach to ensuring that an organisation's T&E management adheres to the requirements for the complex interplay of the various stakeholders that need different visibility of an organisation's expenses.

About Concur Technologies, Inc.

Concur is a leading provider of integrated travel and expense management solutions. The company was founded in 1993 on the premise of helping to drive costs out of business through innovation.

With approximately 20 percent of T&E spend out of policy, Concur's easy-to-use Web-based and mobile solutions help companies and their employees control costs and save time. Concur's systems adapt to individual employee preferences and scale to meet the needs of companies from small to large.

For organisations, Concur helps ensure that corporate travel is booked within policy before the trip is taken and reconciles expenses after travel is completed. And, by delivering electronic receipts – from airlines, hotels, and car rental companies – directly into expense reports, Concur virtually eliminates the need to track and manage paper receipts. To keep employees productive while travelling, Concur's mobile application enables business travellers to create, review and approve expense reports and book and change travel itineraries – hotels, airfare, taxis, rail and rental cars – all from a smartphone.

By capturing and reporting on every aspect of T&E spend, Concur's services provide detailed information to help clients effectively negotiate with vendors, create budgets and manage compliance. Trusted by thousands of businesses in more than 90 countries, Concur's on-demand services process over \$35 billion in travel and entertainment (T&E) spend a year. Learn more at www.concur.co.uk.

World Headquarters

18400 NE Union Hill Road
Redmond, WA 98052
USA
tel (425) 702-8808
fax (425) 702-8828
(877) 4-CONCUR
www.concur.com

European Headquarters

7 Bath Road
Slough
Berkshire SL1 3UA
ENGLAND
tel +44 (0) 1753 574 400
fax +44 (0) 1753 501 700
www.concur.co.uk

Asia Pacific/Australian Headquarters

123 Epping Road
North Ryde NSW 2113
AUSTRALIA
tel +61 (2) 9113 7315
fax +61 (2) 9113 7330
www.concur.com.au

REPORT NOTE:

This report has been written independently by Quocirca Ltd to provide an overview of the issues facing organisations seeking to maximise the effectiveness of today's dynamic workforce.

The report draws on Quocirca's extensive knowledge of the technology and business arenas, and provides advice on the approach that organisations should take to create a more effective and efficient environment for future growth.

Quocirca would like to thank Concur Technologies, Inc. for its sponsorship of this report and the Concur Technologies, Inc. customers who have provided their time and help in the preparation of the case studies

About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with firsthand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, O2, T-Mobile, HP, Xerox, EMC, Symantec and Cisco, along with other large and medium-sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at <http://www.quocirca.com>